

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 SP-02 USIA-06 AID-05 EB-08

NSC-05 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 DODE-00 PM-04 H-01 L-03 PA-01

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TO SECSTATE WASHDC PRIORITY 6901

INFO USMISSION OECD PARIS

AMCONSUL ISTANBUL

AMCONSUL IZMIR

AMCONSUL ADANA

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E.O. 11652: N/A

TAGS: EFIN, EINV, EALR, PFOR, TU

SUBJECT: DETERIORATING TURKISH EXTERNAL PAYMENTS SITUATION
AND THE 1977 ELECTIONS

REF: A) 76 ANKARA 9259; B) ANKARA 0567; C) ANKARA 1643

1. EXTENSIVE MANEUVERINGS OF RECENT WEEKS BY POLITICAL PARTIES ON RELATIVE MERITS OF EARLY ELECTIONS HAVE ONLY FOCUSED PERIPHERALLY ON ECONOMIC EFFECTS TO COUNTRY THAT MIGHT RESULT FROM JUNE AS OPPOSED TO OCTOBER ELECTIONS. IT IS BECOMING INCREASINGLY APPARENT, HOWEVER, THAT DIFFICULTIES GOT IS HAVING IN FINANCING LARGE EXTERNAL DEFICIT AND COPING WITH GROWING DOMESTIC INFLATION WILL INTENSIFY THROUGHOUT SUMMER MONTHS UNLESS ELECTIONS ARE HELD IN JUNE. INTERNATIONAL BANKS PARTICULARLY SEEM RELUCTANT TO INCREASE EXPOSURE IN TURKEY PRIOR TO ELECTIONS. MANY INTERNATIONAL CREDITORS ASSUME THAT AFTER ELECTION, GOT WILL BE FORCED, BY
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CIRCUMSTANCES IF NOT BY IMF, TO CUT IMPORT-FED, INCREASINGLY FOREIGN-FINANCED GROWTH RATE AND ENGAGE IN MEANINGFUL ECONOMIC BELT-TIGHTENING. END SUMMARY.

2. DEMIREL GOVERNMENT HAS IN LAST FEW WEEKS COME UNDER GROWING ATTACK FROM REPUBLICAN PEOPLE'S PARTY FOR ITS ALLEGED MISMANAGEMENT OF THE ECONOMY. ECEVIT HAS

ATTACKED DEMIREL FOR GROWING INFLATION, INATTENTION TO ECONOMIC NEEDS OF FARMERS, WORKERS AND GOVERNMENT CIVIL SERVANTS AND GOT INCREASING SUBSERVIENCE TO INTERNATIONAL CAPITALISM TYPIFIED BY HIGH COST FOREIGN LOANS. ECEVIT HAS NOT, HOWEVER, SUGGESTED ALTERNATIVE TO FOREIGN BORROWING FOR FINANCING HIGH GROWTH RATE NOR HAS EITHER HE OR DEMIREL WARNED PEOPLE OF POSSIBLE SERIOUS ECONOMIC DIFFICULTIES AHEAD.

3. IT SEEMS INCREASINGLY EVIDENT, HOWEVER, THAT TURKISH ECONOMY, PARTICULARLY EXTERNAL PAYMENTS SITUATION, WILL DETERIORATE SERIOUSLY OVER NEXT FEW MONTHS. ABILITY OF TURKISH GOVERNMENT TO FINANCE 1977 ANTICIPATED \$2075 MILLION CURRENT ACCOUNT DEFICIT AND \$1260 MILLION BASIC DEFICIT DOES NOT PRESENTLY APPEAR GOOD. PENDING UNFORESEEN BONANZA (MASSIVE BALANCE OF PAYMENTS LOAN) EVEN MOST OPTIMISTIC PROJECTIONS OF WORKER REMITTANCES AND EXPORT REVENUES WILL PROBABLY NOT BE SUFFICIENT TO PREVENT FORCED CONTRACTION OF IMPORT FLOW.

4. GOT PROJECTED IN 1977 ANNUAL PROGRAM THAT \$2075 MILLION CURRENT ACCOUNT DEFICIT WOULD BE FINANCED BY \$850 MILLION IN PROJECT CREDITS, \$1,140 MILLION IN SHORT-TERM CAPITAL INFLOWS AND \$120 MILLION FROM IMF. WHILE \$850 MILLION FIGURE IS NOT UNREALISTIC IN TERMS OF UNDISBURSED PROJECT CREDITS AVAILABLE TO GOT (\$1.6 BILLION AS OF LATE 1976), IT IS OPTIMISTIC IN CONTEXT OF CHRONIC GOVERNMENT DELAYS IN PROJECT IMPLEMENTATION. THESE NORMAL DELAYS ARE COMPOUNDED BY THE CUMBERSOME DECISION-MAKING PROCESS OF COALITION GOVERNMENT LIMITED OFFICIAL USE

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AND ITS DIFFICULTIES IN SETTING PROJECT PRIORITIES. IN ADDITION, SINCE PROJECT CREDITS DO NOT ALWAYS COVER FULL FOREIGN EXCHANGE COST, GOT'S INABILITY TO AUTHORIZE PROMPT TRANSFERS OF RESIDUAL FOREIGN EXCHANGE COMPONENT IS FURTHER SOURCE OF DELAY.

5. IT IS IN THE AREA OF SHORT-TERM FOREIGN EXCHANGE FINANCING, HOWEVER, THAT THE GOT IS HAVING ITS MORE SERIOUS PROBLEMS. DURING 1977 OVER \$800 MILLION IN SHORT-TERM CONVERTIBLE LIRA DEPOSITS (TOTAL AMOUNT OUTSTANDING IS NOW BETWEEN \$1.8 - 2 BILLION) WILL FALL DUE (BULK BETWEEN MAY - SEPTEMBER) AND GOT IS CLEARLY DEPENDENT ON GOOD WILL OF INTERNATIONAL BANKING COMMUNITY TO ROLL-OVER THESE DEPOSITS. AMERICAN BANKERS WE HAVE TALKED TO RECENTLY ASSUME THAT TURKS WILL BE SUCCESSFUL IN MAINTAINING CONVERTIBLE LIRA DEPOSITS AT AROUND \$2 BILLION (THUS PREVENTING A "RUN ON THE BANK" THAT GOT WOULD BE HARD PUT TO COPE WITH), BUT ARE VIRTUALLY UNANIMOUS IN CONCEDING THAT MOST BIG AMERICAN BANKS HAVE REACHED OR ARE REACHING COUNTRY-EXPOSURE LIMITS FOR TURKEY

AND WILL WAIT UNTIL AFTER THE ELECTION TO DETERMINE WHETHER
COUNTRY LIMITS SHOULD BE RAISED.

6. GIVEN PROSPECTIVE SLOW-DOWN IN SHORT-TERM CAPITAL INFLOWS,
GOT WILL FIND IT INCREASINGLY DIFFICULT TO JUGGLE PRIORITIES
AND FIND THE FOREIGN EXCHANGE NEEDED TO KEEP IMPORTS FLOWING.
CENTRAL BANK HAS THUS FAR IN 1977 MANAGED TO KEEP GROSS
RESERVES AT \$800-850 MILLION BY SLOWING DOWN TRANSFERS, USING
BANK OVER-DRAFT FACILITIES, BRIDGE FINANCING, ETC., BUT THESE
ARE TEMPORARY SOLUTIONS AT BEST. WE HAVE BEEN TOLD BY
CONCERNED AMERICAN BANKS THAT OVERDRAFT FACILITIES ARE
REACHING THEIR LIMITS AND THAT CENTRAL BANK, IN FACT,
WILL NEED TO REPAY \$100-\$150 MILLION OF THIS TYPE OF SHORT-
TERM CREDIT WITHIN NEXT 3-6 MONTHS. AS FURTHER EXAMPLE
OF GOT EFFORTS TO IMPROVE 1977 CASH FLOW

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INFO OCT-01 ISO-00 EURE-00 AID-05 CIAE-00 COME-00
EB-08 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00
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PROBLEMS, WE UNDERSTAND THAT MOBIL (WHICH IMPORTS APPROX-
IMATELY \$220 MILLION IN CURDE PETROLEUM PER YEAR) HAS
BEEN REQUESTED BY GOT TO PROVIDE 180-DAY TERMS FOR
AT LEAST 50 PERCENT OF ITS IMPORTS. JANUARY PICTURE
ONLY ADDS TO CONCERNS: IMPORTS WERE \$535 MILLION,
EXPORTS \$180 MILLION AND WORKER REMITTANCES \$75 MILLION.
FEBRUARY EXPORTS WERE \$168 MILLION; JANUARY-FEBRUARY
EXPORTS ARE DOWN 36 PERCENT OVER SAME PERIOD IN 1976.

7. AMERICAN BANKERS WHOM WE SEE REMAIN RELATIVELY OPTIMISTIC ON MEDIUM AND LONG-TERM PROSPSPECTS OF TURKISH ECONOMY. THEY ARE ALMOST UNANIMOUS, HOWEVER, IN ASSUMING (A) 1977 IMPORT PROGRAM IS UNSUSTAINABLE AND WILL NEED TO BE CUT, (B) WINNER OF 1977 ELECTION WILL NEED TO " BITE THE BULLET" ON ECONOMY IN TERMS OF ANTI-INFLATIONARY, ECONOMIC STABILIZATION PROGRAM, AND (C) CONCURRENTLY WITH (B), NEW GOVERNMENT WILL BE FORCED TO DISCUSS WITH IMF BEST WAY TO HANDLE EXTERNAL LIMITED OFFICIAL USE

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DEFICIT SITUATION IN ORDER TO GET NEEDED CREDITS FROM THE FUND. UNDER ABOVE ASSUMPTIONS, BANKERS SAY TURKEY WOULD BE ABLE TO RAISE ENOUGH IN EURO-MARKET TO GET BY FOR 12-18 MONTHS AFTER ELECTION, THUS PROVIDING TIME FOR GOT TO DEVELOP LESS INFLATIONARY FOURTH FIVE YEAR PLAN (1978-82) WHICH WOULD REQUIRE LESS FOREIGN BORROWING.

8. WHILE SCENARIO IN PARA 7 HAS CERTAIN COMPELLING LOGIC, IT IS NOT ACCEPTED YET BY TURKISH POLITICIANS OR GOVERNMENT OFFICIALS. MINISTRY OF FINANCE AND CENTRAL BANK CONTINUE TO PREDICT THAT NEW FINANCIAL RESOURCES WILL BE FOUND IN EUROMARKET UNDER PRESENT CONDITIONS AND INSIST THAT IMPORT PROGRAM CANNOT BE CUT BACK FOR FEAR OF ENDANGERING 7-8 PERCENT GROWTH RATE. THEY MAY BE RIGHT, BUT AMERICAN BANKS WHO HAVE PROVIDED SOME \$1.5 BILLION IN PRIVATE FINANCING TO THE TURKISH ECONOMY DURING THE PAST TWO YEARS AND HAVE A MUCH BETTER FEEL OF THE EUROMARKET THAN DO THE TURKS, BELIEVE THAT ENOUGH SHORT-TERM FINANCING TO COVER 1977 BOP DEFICIT WILL NOT BE FOUND. MACOMBER

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